

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Elsie	County Clinton
Audit Date 3/31/05	Opinion Date 10/20/05	Date Accountant Report Submitted to State: 1/19/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney			
Street Address 3511 Coolidge, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C. Aaron M. Jones</i>			Date 1/16/06

**Village of Elsie
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Village of Elsie

Clinton County, Michigan

March 31, 2005

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Donald Taylor	President
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Ms. Teresa Ward	Trustee
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Mr. Scott Carie	Trustee
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Mr. Richard Stutzman	Trustee
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Mr. James Ade	Trustee
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Mr. Joseph Menovske	Trustee
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Mr. Joseph Ondrusek	Trustee
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Ms. Brenda England	Clerk
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Ms. Susanne Bensinger	Treasurer
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Village of Elsie

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Principals

Dale J. Abraham, CPA
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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President
and Members of the Village Council
Village of Elsie
Elsie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005, on our consideration of the Village of Elsie's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Elsie's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Village of Elsie's (the Village's) financial performance and position, providing an overview of the activities for the year ended March 31, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. 2004-2005 represents the first year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$5,052,805 (excluding component units).
- Governmental activities net assets were \$408,788.
- Business-type activity net assets were \$4,644,017.
- Component Unit net assets were \$150,433

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$263,578 with \$111,363 being reserved, designated, or otherwise earmarked for specific purposes.
- The General Fund realized \$14,708 less in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$11,745 more than appropriated.
- Overall, the General Fund balance decreased by \$30,616 to \$122,382.

Capital and Long-term Debt Activities:

- The primary government issued \$269,794 in new debt during the fiscal year.
- The total long-term debt for the primary government was \$2,237,939 with a net increase of \$234,168 from the prior year.
- The Village remains well below its authorized legal debt limit.
- The total addition to the capital asset schedule for the primary government was \$314,419, which included new additions to our water system.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis*; and 3) *the Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2004/2005 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services, and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and Sewer System Fund are examples of these activities.
- **Discretely Presented Component Unit** - Discretely Presented Component units are legally separate organizations for which the Council and administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the Village. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an accrual basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Elsie include the General Fund, the Major Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (used to report major capital acquisitions and construction), and *Permanent Funds*.
- **Proprietary Funds** - Services for which the Village charges customers a fee (whether outside the Village structure or a Village department) are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise Funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 10 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented aggregate single columns in the appropriate basic financial statements. Also presented in this section is additional financial information related to the discretely presented component unit (DDA).

Village of Elsie

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, Village of Elsie's combined net assets were \$5,052,805 at the end of this year's operations. The net assets of the governmental activities were \$408,788; the business-type activities were \$4,644,017.

Net Assets as of March 31, 2005

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Current and Other Assets	\$ 286,478	\$ 518,826	\$ 805,304
Capital Assets	<u>154,763</u>	<u>6,395,507</u>	<u>6,550,270</u>
Total Assets	441,241	6,914,333	7,355,574
Current Liabilities	25,594	91,529	117,123
Noncurrent Liabilities	<u>6,859</u>	<u>2,178,787</u>	<u>2,185,646</u>
Total Liabilities	32,453	2,270,316	2,302,769
Net Assets			
Invested in Capital Assets (Net of related debt)	154,763	4,166,713	4,321,476
Restricted	140,002	-	140,002
Unrestricted	<u>114,023</u>	<u>477,304</u>	<u>591,327</u>
Total Net Assets	<u>\$ 408,788</u>	<u>\$ 4,644,017</u>	<u>\$ 5,052,805</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending March 31, 2005

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Revenues			
Program Revenues			
Charges for Services	\$ 21,552	\$ 323,533	\$ 345,085
Grants and Contributions	77,076	-	77,076
General Revenues			
Property Taxes	225,765	-	225,765
State Shared Revenue	94,204	-	94,204
Investment Earnings	1,208	2,326	3,534
Miscellaneous	<u>6,881</u>	<u>210</u>	<u>7,091</u>
Total Revenues	426,686	326,069	752,755

Village of Elsie

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Changes in Net Assets for the Fiscal Year Ending March 31, 2005 - continued

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Expenses			
General Government	\$ 231,249	\$ -	\$ 231,249
Public Safety	140,150	-	140,150
Public Works	95,614	-	95,614
Community and Econ. Dev.	5,175	-	5,175
Recreation and Cultural	14,150	-	14,150
Other	573	-	573
Sewer System	-	291,416	291,416
Water System	-	176,326	176,326
Total Expenses	<u>486,911</u>	<u>467,742</u>	<u>954,653</u>
Increase (decrease) In Net Assets	(60,225)	(141,673)	(201,898)
Net Assets - Beginning	<u>469,013</u>	<u>4,785,690</u>	<u>5,254,703</u>
Net Assets - Ending	<u>\$ 408,788</u>	<u>\$ 4,644,017</u>	<u>\$ 5,052,805</u>

Governmental Activities:

The result of fiscal year 2004/2005 governmental activity was a decrease of (\$60,225) in net assets to \$408,788. Of the total governmental activities' net assets, \$154,763 is invested in capital assets less related debt, \$140,002 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village Government. The balance of \$114,023 is listed as unrestricted, having no legal commitment.

Revenues:

The two largest revenue categories were property taxes at 53% and State shared revenue at 22%.

Expenses:

General government is the largest governmental activity, expending approximately 47% of the governmental activities total and includes the cemetery, clerk, and treasurer departments. Public Safety is the second largest area, expending approximately 29% of the governmental activities total on police protection.

Business-type Activities:

Net assets in business-type activities decreased by (\$141,673) during 2004-2005. Of the business-type activities' net assets, \$4,166,713 is invested in capital assets less related debt. The balance of \$477,304 is listed as unrestricted, having no legal commitment.

Village of Elsie

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS

As the Village completed 2004-2005, its governmental funds reported *combined* fund balances of \$263,578. This is a net decrease of (\$71,741). The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>
Fund Balance 3/31/04	\$ 152,998	\$ 32,411	\$ 149,910
Fund Balance 3/31/05	<u>122,382</u>	<u>28,639</u>	<u>112,557</u>
Net Change	<u>\$(30,616)</u>	<u>\$(3,772)</u>	<u>\$(37,353)</u>

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of March 31, 2005, the General Fund reported a fund balance of \$122,382. This amount is a decrease of \$30,616 from the fund balance of \$152,998 reported as of March 31, 2004. The 2004-2005 original budget called for a \$4,163 use of fund balance.

General Fund Budgetary Highlights:

The Village of Elsie's budget is a dynamic document. Although adopted prior to March 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$378,858, \$14,708 below the final amended budget. The final amended and original budgets were the same and were only 4% different than final actual.

Actual Village expenditures for 2004-2005 were \$11,745 over budget. General Fund actual expenditures came in at \$409,474 and the final budgeted amount was \$397,723, which was only a 3% difference.

Major Street Fund:

As of March 31, 2005, the Major Street Fund reported a fund balance of \$28,639, a decrease of \$3,772 from the prior year. The total fund balance is undesignated/unreserved. There was no material changes noted between the original and final amended budgeted revenues or expenditures. There were also no material differences between final amended revenues and expenditures and actual amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2004-2005, the Village had invested \$6,550,270, net of accumulated depreciation, in a broad range of capital assets. Accumulated depreciation was \$2,090,428 for the primary government. Additional details regarding the Village's capital assets are provided in Note F to the financial statements.

Long-term Debt - As of March 31, 2005, the Village had \$2,237,939 in debt outstanding for the primary government. This level of net obligation is \$234,168 more than the obligation recorded as of March 31, 2004.

Village of Elsie
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

Outstanding Debt as of March 31, 2005

	<u>April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2005</u>
Primary Government				
Governmental Activities				
Police car lease	\$ 17,130	\$ -	\$ 17,130	\$ -0-
Compensated absences	<u>3,641</u>	<u>5,504</u>	<u>-</u>	<u>9,145</u>
	20,771	5,504	17,130	9,145
Business-type Activities				
Revenue Bonds	1,748,000	-	19,000	1,729,000
Refunding Bonds	235,000	-	5,000	230,000
Installment Purchase	<u>-</u>	<u>269,794</u>	<u>-</u>	<u>269,794</u>
	<u>1,983,000</u>	<u>269,794</u>	<u>24,000</u>	<u>2,228,794</u>
	<u>\$ 2,003,771</u>	<u>\$ 275,298</u>	<u>\$ 41,130</u>	<u>\$ 2,237,939</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note G to the financial statements.

VILLAGE OF ELSIE GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been cut more than once and any further cuts would affect the services that we provide to the citizens of the Village of Elsie.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past four years.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for 2005-2006. A usage of (\$30,616) of the Village's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be significantly higher. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 862-4273.

BASIC FINANCIAL STATEMENTS

Village of Elsie

STATEMENT OF NET ASSETS

March 31, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 134,267	\$ 243,445	\$ 377,712	\$ 60,552
Investments	176,887	210,274	387,161	44,044
Receivables	-	23,637	23,637	-
Due from other governmental units	14,844	-	14,844	20,351
Internal balances	(39,520)	39,520	-0-	-
Total current assets	286,478	516,876	803,354	124,947
Noncurrent assets				
Special assessment receivable - noncurrent	-	1,950	1,950	-
Loan receivable	-	-	-0-	25,486
Capital assets not being depreciated	-	440,794	440,794	-
Capital assets, net of accumulated depreciation	154,763	5,954,713	6,109,476	-
Total noncurrent assets	154,763	6,397,457	6,552,220	25,486
TOTAL ASSETS	441,241	6,914,333	7,355,574	150,433
LIABILITIES				
Current liabilities				
Accounts payable	6,980	12,085	19,065	-
Accrued liabilities	7,622	3,214	10,836	-
Due to other governmental units	8,298	-	8,298	-
Accrued interest payable	408	23,342	23,750	-
Current portion of compensated absences	2,286	720	3,006	-
Current portion of long-term debt	-	52,168	52,168	-
Total current liabilities	25,594	91,529	117,123	-0-
Noncurrent liabilities				
Noncurrent portion of compensated absences	6,859	2,161	9,020	-
Noncurrent portion of long-term debt	-	2,176,626	2,176,626	-
Total noncurrent liabilities	6,859	2,178,787	2,185,646	-0-
TOTAL LIABILITIES	32,453	2,270,316	2,302,769	-0-
NET ASSETS				
Invested in capital assets, net of related debt	154,763	4,166,713	4,321,476	-
Restricted for other purposes	140,002	-	140,002	-
Unrestricted	114,023	477,304	591,327	150,433
TOTAL NET ASSETS	\$ 408,788	\$ 4,644,017	\$ 5,052,805	\$ 150,433

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit (DDA)
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	
Governmental activities						
General government	\$ 231,249	\$ 18,728	\$ 671	\$ (211,850)	\$ -	\$ -
Public safety	140,150	-	-	(140,150)	-	-
Public works	95,614	-	76,405	(19,209)	-	-
Community and economic development	5,175	2,824	-	(2,351)	-	-
Recreation and cultural	14,150	-	-	(14,150)	-	-
Interest on long-term debt	573	-	-	(573)	-	-
Total governmental activities	486,911	21,552	77,076	(388,283)	-0-	-0-
Business-type activities						
Sewer system	291,416	165,660	-	-	(125,756)	-
Water system	176,326	157,873	-	-	(18,453)	-
Total business-type activities	467,742	323,533	-0-	-0-	(144,209)	-0-
Total primary government	\$ 954,653	\$ 345,085	\$ 77,076	(388,283)	(144,209)	-0-
Component unit						
Downtown Development Authority	\$ 95,180	\$ -	\$ -	-0-	-0-	(95,180)
General revenues						
Property taxes				225,765	-	38,392
State shared revenue				94,204	-	-
Investment earnings				1,208	2,326	1,520
Miscellaneous				6,881	210	907
Total general revenues				328,058	2,536	40,819
Change in net assets				(60,225)	(141,673)	(54,361)
Net assets, beginning of the year				469,013	4,785,690	204,794
Net assets, end of the year				\$ 408,788	\$ 4,644,017	\$ 150,433

See accompanying notes to financial statements.

Village of Elsie

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 111,923	\$ 25,177	\$ (2,833)	\$ 134,267
Investments	84,868	2,070	89,949	176,887
Due from other governmental units	-	10,965	3,879	14,844
Due from other funds	56,789	1,619	33,077	91,485
TOTAL ASSETS	\$ 253,580	\$ 39,831	\$ 124,072	\$ 417,483
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,034	\$ 730	\$ 216	\$ 6,980
Accrued liabilities	6,088	843	691	7,622
Due to other governmental units	8,298	-	-	8,298
Due to other funds	110,778	9,619	10,608	131,005
TOTAL LIABILITIES	131,198	11,192	11,515	153,905
FUND BALANCES				
Reserved for perpetual care	-	-	111,363	111,363
Unreserved - undesignated				
General fund	122,382	-	-	122,382
Special revenue funds	-	28,639	1,194	29,833
TOTAL FUND BALANCES	122,382	28,639	112,557	263,578
TOTAL LIABILITIES AND FUND BALANCES	\$ 253,580	\$ 39,831	\$ 124,072	\$ 417,483

See accompanying notes to financial statements.

Village of Elsie

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balances - governmental funds \$ 263,578

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$	296,984	
Accumulated depreciation is		(142,221)	
Capital assets, net			154,763

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at year-end consist of:

Accrued interest payable	408		
Compensated absences		9,145	
			(9,553)

Net assets of governmental activities \$ 408,788

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 225,765	\$ -	\$ -	\$ 225,765
Licenses and permits	6,549	-	-	6,549
Intergovernmental	94,874	56,416	19,990	171,280
Charges for services	14,223	-	-	14,223
Interest and rents	1,585	403	-	1,988
Other	5,862	1,019	-	6,881
TOTAL REVENUES	348,858	57,838	19,990	426,686
EXPENDITURES				
Current				
General government	246,636	-	-	246,636
Public safety	125,425	-	-	125,425
Public works	-	51,082	37,871	88,953
Community and economic development	5,175	-	-	5,175
Recreation and cultural	14,150	-	-	14,150
Debt service	18,088	-	-	18,088
TOTAL EXPENDITURES	409,474	51,082	37,871	498,427
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(60,616)	6,756	(17,881)	(71,741)
OTHER FINANCING SOURCES (USES)				
Transfers in	30,000	-	10,528	40,528
Transfers out	-	(10,528)	(30,000)	(40,528)
TOTAL OTHER FINANCING SOURCES (USES)	30,000	(10,528)	(19,472)	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(30,616)	(3,772)	(37,353)	(71,741)
Fund balances, beginning of year	152,998	32,411	149,910	335,319
Fund balances, end of year	<u>\$ 122,382</u>	<u>\$ 28,639</u>	<u>\$ 112,557</u>	<u>\$ 263,578</u>

See accompanying notes to financial statements.

Village of Elsie

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds \$ (71,741)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	27,625	
Depreciation expense	<u>(28,120)</u>	
Excess of depreciation expense over capital outlay		(495)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan principal retirement	17,130
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	385	
(Increase) in accrued compensated absences	<u>(5,504)</u>	
		<u>(5,119)</u>

Change in net assets of governmental activities \$ (60,225)

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 94,798	\$ 148,647	\$ 243,445
Investments	191,644	18,630	210,274
Accounts receivable	11,190	10,854	22,044
Taxes receivable	984	-	984
Special assessments receivable - current	609	-	609
Due from other funds	131,118	21,825	152,943
Total current assets	430,343	199,956	630,299
Noncurrent assets			
Special assessments receivable - noncurrent	1,950	-	1,950
Capital assets not being depreciated	153,000	287,794	440,794
Capital assets, net of accumulated depreciation	5,291,469	663,244	5,954,713
Total noncurrent assets	5,446,419	951,038	6,397,457
TOTAL ASSETS	5,876,762	1,150,994	7,027,756
LIABILITIES			
Current liabilities			
Accounts payable	3,942	8,143	12,085
Accrued liabilities	1,171	2,043	3,214
Due to other funds	21,656	91,767	113,423
Accrued interest payable	6,484	16,858	23,342
Current portion of compensated absences	306	414	720
Current portion of long-term debt	20,000	32,168	52,168
Total current liabilities	53,559	151,393	204,952
Noncurrent liabilities			
Noncurrent portion of compensated absences	917	1,244	2,161
Noncurrent portion of long-term debt	1,709,000	467,626	2,176,626
Total noncurrent liabilities	1,709,917	468,870	2,178,787
TOTAL LIABILITIES	1,763,476	620,263	2,383,739
NET ASSETS			
Invested in capital assets, net of related debt	3,715,469	451,244	4,166,713
Unrestricted	397,817	79,487	477,304
TOTAL NET ASSETS	\$ 4,113,286	\$ 530,731	\$ 4,644,017

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended March 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 165,660	\$ 157,873	\$ 323,533
Other	173	37	210
TOTAL REVENUES	165,833	157,910	323,743
OPERATING EXPENSES			
Salaries and wages	23,226	40,397	63,623
Fringe benefits	7,933	9,765	17,698
Contractual services	11,494	7,256	18,750
Supplies	4,350	12,140	16,490
Insurance	6,931	3,851	10,782
Utilities	13,486	11,667	25,153
Training	250	385	635
Communications	1,177	173	1,350
Printing and publishing	-	626	626
Repairs and maintenance	887	629	1,516
Vehicle expense	2,384	1,094	3,478
Other	2,742	1,711	4,453
Depreciation	132,418	29,536	161,954
TOTAL OPERATING EXPENSES	207,278	119,230	326,508
OPERATING INCOME (LOSS)	(41,445)	38,680	(2,765)
NONOPERATING REVENUES (EXPENSES)			
Loss on disposal of capital asset	-	(34,337)	(34,337)
Interest revenue	2,300	26	2,326
Interest expense	(84,138)	(22,759)	(106,897)
TOTAL NONOPERATING REVENUES (EXPENSES)	(81,838)	(57,070)	(138,908)
CHANGE IN NET ASSETS	(123,283)	(18,390)	(141,673)
Net assets, beginning of year	4,236,569	549,121	4,785,690
Net assets, end of year	\$ 4,113,286	\$ 530,731	\$ 4,644,017

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended March 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 171,287	\$ 160,598	\$ 331,885
Cash receipts from internal funds	20,837	66,417	87,254
Cash paid to employees	(30,506)	(48,969)	(79,475)
Cash paid to suppliers	(42,873)	(26,090)	(68,963)
Cash paid to internal funds	(66,416)	(20,837)	(87,253)
NET CASH PROVIDED BY OPERATING ACTIVITIES	52,329	131,119	183,448
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	2,300	26	2,326
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of investments	(191,644)	(18,630)	(210,274)
Purchase of capital assets	(17,000)	(269,794)	(286,794)
Payments of borrowing	(19,000)	(5,000)	(24,000)
Loan proceeds	-	269,794	269,794
Interest expense	(84,138)	(22,759)	(106,897)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(311,782)	(46,389)	(358,171)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(257,153)	84,756	(172,397)
Cash and cash equivalents, beginning of year	351,951	63,891	415,842
Cash and cash equivalents, end of year	<u>\$ 94,798</u>	<u>\$ 148,647</u>	<u>\$ 243,445</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (41,445)	\$ 38,680	\$ (2,765)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	132,418	29,536	161,954
Decrease in accounts receivable	5,454	2,688	8,142
(Increase) in due from other funds	(66,416)	(20,837)	(87,253)
Increase in accounts payable	899	1,660	2,559
Increase in accrued liabilities	653	1,193	1,846
Increase (Decrease) in accrued interest payable	(71)	11,782	11,711
Increase in due to other funds	20,837	66,417	87,254
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 52,329	\$ 131,119	\$ 183,448

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Elsie is located in Clinton County, Michigan and has a population of approximately 1,000. The Village of Elsie operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and six (6) trustees who are selected at large for four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by generally accepted accounting principles; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Elsie (primary government) and its component unit (Downtown Development Authority). The component unit described in Section 2 below is included in the Village's reporting entity because of the significance of the operational and financial relationship with the Village.

Based upon the application of these criteria, the general purpose financial statements of the Village of Elsie contain all the funds and account groups controlled by the Village Council.

2. Discretely Presented Component Unit

The component unit column in the general purpose financial statements includes the financial data of the Village's component unit (Downtown Development Authority). It is reported in a separate column to emphasize that it is legally separate from the Village.

The governing body of the Downtown Development Authority is appointed by the Village Council, the Authority's budget is subject to the approval of the Village Council, and the Village temporarily relinquishes part of its tax base to the Authority (tax increment revenues).

3. Joint Venture

The Village participates in the following activity, which is considered to be a joint venture in relation to the Village due to the formation of an organization by contractual agreement between two or more participants that maintain just control, financial interest, and financial responsibility.

Elsie Area Fire Association - The Village of Elsie, in conjunction with Duplain, Fairfield, and Chapin Townships, has entered into an agreement which created the Elsie Area Fire Association. Each municipality appoints one individual and the fire department appoints one individual at large to the governing body of the Fire Association. The at large member shall not be a member of, or associated with the fire department.

For the year ended March 31, 2005, the Village paid \$282 for fire supplies to the Fire Association.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Related Organization

The Elsie Dairy Festival is a separate entity established to raise funds and sponsor the annual dairy festival and other activities held in the Village. The Village appoints one (1) of its Board Members to serve as the Village representative on the Committee that organizes the festival activities. The Village provides insurance coverage for the festival and allows festival activities to be held on Village owned properties. The Village also provides public works and police support for the festival at no cost. The Village did not contribute to the operational costs of the festival for the year ended March 31, 2005.

5. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

7. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and component unit funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

8. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Village President submits to Village Council the proposed operating budgets for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budget is legally adopted with passage by Council vote.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Budgets and Budgetary Accounting - continued

- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31, 2005 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council as required.

9. Cash and Cash Equivalents

The Village pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash equivalents consist of pooled temporary investments in mutual funds and certificates of deposit with an original maturity of 90 days or less from the date of purchase.

10. Investments

Investments consist of U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Property Tax

The Village of Elsie bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Elsie on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended March 31, 2005, the Village levied 15 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2004 levy for property within the Village was \$16,079,741.

The Downtown Development Authority (component unit) receives "tax increment" revenue. The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured taxable value of all real and personal property located in the development area. The "captured taxable value" is basically defined as the amount in any one year by which the current taxable value of the project area exceeds the initial taxable value.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

13. Compensated Absences

Village employees are granted vacation, sick, and personal leave in varying amounts. In the event of termination, an employee is paid for one-half of accumulated sick days and all accumulated unused vacation and personal leave days.

For governmental funds, the cost of accumulated compensated absences along with the related payroll taxes are recorded entirely in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when earned.

14. Capital Assets

Capital assets include land, buildings, equipment, vehicles, sewer system and improvements, and water system and improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Vehicles	5 - 15 years
Machinery and equipment	10 years
Sewer system and improvements	20 - 75 years
Water system and improvements	40 years

15. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

17. Accounting Change

As of April 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$1,128,217, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Village's capital assets.
- Long-term obligations reported on the statement of net assets include compensated absences of \$3,641 and contract and lease payables of \$139,494, which were previously reported in the General Long-term Debt Account Group.
- The governmental fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), or a credit union which is insured by the National Credit Union Administration or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United State government and which maintains a principal office or branch office located in this State under the laws of this State, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act no. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of March 31, 2005, the carrying amounts and bank balances for the bank accounts are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 377,713	\$ 398,059
COMPONENT UNIT		
Checking	60,552	60,552
Certificates of deposit	<u>44,044</u>	<u>44,044</u>
Total Component Unit	<u>104,596</u>	<u>104,596</u>
Total Reporting Entity	<u>\$ 482,309</u>	<u>\$ 502,655</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of March 31, 2005 the Village accounts were insured by the FDIC for \$200,000 and the amount of \$302,655 as uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of March 31, 2005, the carrying amount and market value for the mutual fund investments reported in the investments captions on the combined balance sheet and statement of net assets are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT		
Uncategorized pooled investment funds	<u>\$ 387,161</u>	<u>\$ 387,161</u>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash, cash equivalents, and investments referred to above have been reported in the cash, cash equivalents, and investments caption on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 377,713	\$ 60,552	\$ 438,265
Investments	<u>387,161</u>	<u>44,044</u>	<u>431,205</u>
	<u>\$ 764,874</u>	<u>\$ 104,596</u>	<u>\$ 869,470</u>

NOTE C: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The Village utilizes pooled cash accounts for various funds. Cash overdrafts of individual funds as of March 31, 2005, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash & Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Local Street	\$(627)	\$ -	\$(627)
Permanent Funds			
Cemetery perpetual care	<u>(2,206)</u>	<u>-</u>	<u>(2,206)</u>
Total reporting entity	<u>\$(2,833)</u>	<u>\$ -0-</u>	<u>\$(2,833)</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at March 31, 2005:

Due to General Fund from:	
Nonmajor Governmental Funds	\$ 10,601
Water System Fund	<u>46,188</u>
	56,789
Due to Major Street Fund from:	
General Fund	1,619
Due to Nonmajor Governmental Funds from:	
General Fund	23,620
Major Street Fund	<u>9,457</u>
	33,077
Due to Water System Fund from:	
Major Street Fund	162
Nonmajor Governmental Funds	7
Sewer System Fund	<u>21,656</u>
	21,825

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE D: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Sewer System Fund from:	
General Fund	\$ 85,539
Water System Fund	<u>45,579</u>
	<u>131,118</u>
	<u>\$ 244,428</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	<u>\$ 30,000</u>
Transfers to nonmajor governmental funds from:	
Major Street	<u>\$ 10,528</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	Restated Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Governmental activities				
Capital assets being depreciated:				
Buildings	\$ 67,388	\$ 27,625	\$ -	\$ 95,013
Vehicles	119,231	-	-	119,231
Machinery and equipment	<u>82,740</u>	<u>-</u>	<u>-</u>	<u>82,740</u>
Total at historical cost	269,359	27,625	-0-	296,984
Less accumulated depreciation for:				
Buildings	(43,638)	(1,000)	-	(44,638)
Vehicles	(18,616)	(8,274)	-	(26,890)
Machinery and equipment	<u>(51,847)</u>	<u>(18,846)</u>	<u>-</u>	<u>(70,693)</u>
Total accumulated depreciation	<u>(114,101)</u>	<u>(28,120)</u>	<u>-0-</u>	<u>(142,221)</u>
Capital assets, net	<u>\$ 155,258</u>	<u>\$ (495)</u>	<u>\$ -0-</u>	<u>\$ 154,763</u>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE F: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 6,734
Public safety	14,725
Public works	<u>6,661</u>
Total depreciation expense	<u>\$ 28,120</u>

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Business-type activities				
Sewer System Fund				
Capital assets not being depreciated:				
Land	\$ 153,000	\$ -	\$ -	\$ 153,000
Capital assets being depreciated:				
Equipment	168,323	17,000	-	185,323
Sewer system	<u>6,691,198</u>	<u>-</u>	<u>-</u>	<u>6,691,198</u>
Total at historical cost	6,859,521	17,000	-0-	6,876,521
Less accumulated depreciation for:				
Equipment	(49,752)	(11,465)	-	(61,217)
Sewer system	<u>(1,402,882)</u>	<u>(120,953)</u>	<u>-</u>	<u>(1,523,835)</u>
Total accumulated depreciation	<u>(1,452,634)</u>	<u>(132,418)</u>	<u>-0-</u>	<u>(1,585,052)</u>
Net capital assets being depreciated	<u>5,406,887</u>	<u>(115,418)</u>	<u>-0-</u>	<u>5,291,469</u>
Capital assets, net	<u>\$ 5,559,887</u>	<u>\$(115,418)</u>	<u>\$ -0-</u>	<u>\$ 5,444,469</u>
Water System Fund				
Capital assets not being depreciated:				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Construction in progress	<u>-</u>	<u>269,794</u>	<u>-</u>	<u>269,794</u>
Total capital assets not being depreciated	18,000	269,794	-0-	287,794
Capital assets being depreciated:				
Equipment	86,115	-	-	86,115
Water system	<u>1,019,804</u>	<u>-</u>	<u>(79,520)</u>	<u>940,284</u>
Total at historical cost	1,105,919	-0-	(79,520)	1,026,399
Less accumulated depreciation for:				
Equipment	(67,962)	(6,029)	-	(73,991)
Water system	<u>(310,840)</u>	<u>(23,507)</u>	<u>45,183</u>	<u>(289,164)</u>
Total accumulated depreciation	<u>(378,802)</u>	<u>(29,536)</u>	<u>45,183</u>	<u>(363,155)</u>
Net capital assets being depreciated	<u>727,117</u>	<u>(29,536)</u>	<u>(34,337)</u>	<u>663,244</u>
Capital assets, net	<u>\$ 745,117</u>	<u>\$ 240,258</u>	<u>\$(34,337)</u>	<u>\$ 951,038</u>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended March 31, 2005.

	Restated Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Police car lease	\$ 17,130	\$ -	\$ 17,130	\$ -0-	\$ -
Compensated absences	<u>3,641</u>	<u>5,504</u>	<u>-</u>	<u>9,145</u>	<u>2,286</u>
	20,771	5,504	17,130	9,145	2,286
Business-type Activities					
Sewer System Fund					
2002 Revenue Bonds	1,748,000	-	19,000	1,729,000	20,000
Water System Fund					
1997C Refunding Bonds	235,000	-	5,000	230,000	10,000
Installment purchase	<u>-</u>	<u>269,794</u>	<u>-</u>	<u>269,794</u>	<u>22,168</u>
	<u>1,983,000</u>	<u>269,794</u>	<u>24,000</u>	<u>2,228,794</u>	<u>52,168</u>
	<u>\$ 2,003,771</u>	<u>\$ 275,298</u>	<u>\$ 41,130</u>	<u>\$ 2,237,939</u>	<u>\$ 54,454</u>

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1990 Water Revenue Bonds and replace them with the 1997C Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$49,303.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Sewer System Revenue Bonds

\$1,800,000 Sewer System Revenue Bonds, dated the various dates delivered to the purchaser(s), due in annual installments to be set by the U.S. Department of Agriculture with a final maturity date no later than September 1, 2042, with interest not to exceed 4.50 percent, payable semi-annually.

\$ 1,729,000

Water System Refunding Bonds

\$265,000 Water Refunding Bonds, dated October 16, 1997, due in annual installments ranging from \$10,000 to \$25,000 through May 1, 2020, with interest of 5.274 percent, payable semi-annually.

\$ 230,000

Installment Purchase

\$280,000 installment purchase, dated May 25, 2005, due in annual installments of \$36,420 through May 25, 2014, including interest of 5.09% payable annually.

\$ 269,794

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused compensated absences. The dollar amounts of these vested rights have been accrued on the government-wide financial statements. The total liability amounted to approximately \$12,026 at March 31, 2005. Of this amount, \$2,881 is shown as accrued liabilities within the Enterprise Funds in accordance with criteria disclosed in Note A.

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE G: LONG-TERM DEBT - CONTINUED

The annual requirement to pay the debt principal and interest outstanding for the Village's long-term debt is as follows:

PRIMARY GOVERNMENT

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Refunding Bonds</u>		<u>Installment Purchase</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 20,000	\$ 77,783	\$ 10,000	\$ 16,313	\$ 22,168	\$ 14,252
2007	21,000	76,883	10,000	15,588	23,296	13,124
2008	22,000	75,937	10,000	14,863	24,482	11,938
2009	23,000	74,947	10,000	14,137	25,728	10,692
2010	24,000	73,913	10,000	13,412	27,038	9,382
2011-2015	136,000	352,440	65,000	54,556	147,082	24,812
2016-2020	170,000	318,938	90,000	26,462	-	-
2021-2025	212,000	276,908	25,000	906	-	-
2026-2030	265,000	224,685	-	-	-	-
2031-2035	330,000	159,435	-	-	-	-
2036-2040	412,000	78,030	-	-	-	-
2041-2045	94,000	6,255	-	-	-	-
	<u>\$ 1,729,000</u>	<u>\$ 1,796,154</u>	<u>\$ 230,000</u>	<u>\$ 156,237</u>	<u>\$ 269,794</u>	<u>\$ 84,200</u>

NOTE H: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. In August 2005 the Village withdrew from the Michigan Municipal Employees Retirement System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended March 31, 2005, the Village's annual pension cost of \$11,114 for the plan was equal to the Village's required and actual contribution. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is seven (7) years.

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE H: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 133,251	\$ 151,776	\$ 168,255
Actuarial accrued liability (AAL) (entry age)	184,268	172,236	171,794
Unfunded AAL	51,017	20,460	3,539
Funded ratio	72 %	88 %	98 %
Covered payroll	105,922	124,625	211,732
UAAL as a percentage of covered payroll	48 %	16 %	2 %

	Year Ended March 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 2,133	\$ 8,625	\$ 11,114
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and Major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended March 31, 2005, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
Assessor	\$ -	\$ 716	\$ 716
Cemetery	40,353	43,345	2,992
Other village services	168,535	173,943	5,408
Public Safety			
Police department	125,020	125,143	123
Fire department	-	282	282
Community and economic development			
Zoning	2,778	5,175	2,397
Recreation and Cultural			
Parks and recreation	12,198	14,150	1,952
Debt Service	10,850	18,088	7,238

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE J: FUND EQUITY RESERVES

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of March 31, 2005:

Fund Balance

Cemetery Perpetual Care Fund	
Reserved for perpetual care	<u>\$ 111,363</u>

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of March 31, 2005:

Other Purposes	
Major Street	\$ 28,639
Cemetery perpetual care	<u>111,363</u>
	<u>\$ 140,002</u>

NOTE L: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, workers' compensation, crime, and liability losses. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Elsie

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 255,943	\$ 255,943	\$ 225,765	\$ (30,178)
Licenses and permits	6,173	6,173	6,549	376
Intergovernmental - State	118,000	118,000	94,874	(23,126)
Charges for services	10,700	10,700	14,223	3,523
Interest and rents	1,600	1,600	1,585	(15)
Other	1,150	1,150	5,862	4,712
TOTAL REVENUES	393,566	393,566	348,858	(44,708)
EXPENDITURES				
Current				
General government				
Legislative	15,300	15,300	12,563	2,737
Elections	1,500	1,500	538	962
Assessor	-	-	716	(716)
Attorney	3,500	3,500	3,238	262
Clerk	4,142	4,142	3,348	794
Treasurer	4,653	4,653	4,144	509
Building and grounds	8,900	8,900	4,801	4,099
Cemetery	40,353	40,353	43,345	(2,992)
Other village services	168,535	168,535	173,943	(5,408)
Total general government	246,883	246,883	246,636	247
Public safety				
Police department	125,020	125,020	125,143	(123)
Fire department	-	-	282	(282)
Total public safety	125,020	125,020	125,425	(405)
Community and economic development				
Zoning	2,778	2,778	5,175	(2,397)
Recreation and cultural				
Parks and recreation	12,198	12,198	14,150	(1,952)
Debt service	10,850	10,850	18,088	(7,238)
TOTAL EXPENDITURES	397,729	397,729	409,474	(11,745)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(4,163)	(4,163)	(60,616)	(56,453)

Village of Elsie

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
OTHER FINANCING SOURCES				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(4,163)	(4,163)	(30,616)	(26,453)
Fund balance, beginning of year	<u>152,998</u>	<u>152,998</u>	<u>152,998</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 148,835</u></u>	<u><u>\$ 148,835</u></u>	<u><u>\$ 122,382</u></u>	<u><u>\$ (26,453)</u></u>

Village of Elsie

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 57,000	\$ 57,000	\$ 56,416	\$ (584)
Interest	600	600	403	(197)
Other	-	-	1,019	1,019
TOTAL REVENUES	57,600	57,600	57,838	238
EXPENDITURES				
Current				
Public works				
Routine Maintenance	64,795	64,795	49,000	15,795
Winter Maintenance	12,194	12,194	2,082	10,112
TOTAL EXPENDITURES	76,989	76,989	51,082	25,907
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,389)	(19,389)	6,756	26,145
OTHER FINANCING USES				
Transfers out	-	-	(10,528)	(10,528)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(19,389)	(19,389)	(3,772)	15,617
Fund balance, beginning of year	32,411	32,411	32,411	-0-
Fund balance, end of year	\$ 13,022	\$ 13,022	\$ 28,639	\$ 15,617

OTHER SUPPLEMENTARY INFORMATION

Village of Elsie
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
March 31, 2005

	Special Revenue	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Local Street		
ASSETS			
Cash and cash equivalents	\$ (627)	\$ (2,206)	\$ (2,833)
Investments	-	89,949	89,949
Due from other governmental units - State	3,879	-	3,879
Due from other funds	9,457	23,620	33,077
TOTAL ASSETS	\$ 12,709	\$ 111,363	\$ 124,072
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 216	\$ -	\$ 216
Accrued liabilities	691	-	691
Due to other funds	10,608	-	10,608
TOTAL LIABILITIES	11,515	-0-	11,515
FUND BALANCES			
Reserved for			
Perpetual care	-	111,363	111,363
Unreserved			
Undesignated, reported in			
Special revenue funds	1,194	-	1,194
TOTAL FUND BALANCES	1,194	111,363	112,557
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,709	\$ 111,363	\$ 124,072

Village of Elsie

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	Special Revenue	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Local Street		
REVENUES			
Intergovernmental	\$ 19,990	\$ -	\$ 19,990
EXPENDITURES			
Current			
Public works			
Routine maintenance	35,311	-	35,311
Winter maintenance	2,560	-	2,560
TOTAL EXPENDITURES	37,871	-0-	37,871
EXCESS OF REVENUES (UNDER) EXPENDITURES	(17,881)	-0-	(17,881)
OTHER FINANCING SOURCES (USES)			
Transfers in	10,528	-	10,528
Transfers out	-	(30,000)	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	10,528	(30,000)	(19,472)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(7,353)	(30,000)	(37,353)
Fund balances, beginning of year	8,547	141,363	149,910
Fund balances, end of year	\$ 1,194	\$ 111,363	\$ 112,557

Village of Elsie

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

March 31, 2005

	Special Revenue
ASSETS	
Cash	\$ 60,552
Investments	44,044
Due from other governmental units	<u>20,351</u>
TOTAL ASSETS	<u>\$ 124,947</u>
FUND BALANCE	
Unreserved - undesignated	<u>\$ 124,947</u>

Village of Elsie

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

March 31, 2005

Total fund balance - governmental fund	\$ 124,947
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Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term assets are not due and receivable in the current period
and therefore are not reported as assets in the funds.

Long-term assets at year-end consist of:

Loan receivable	<u>25,486</u>
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Net assets of governmental activities	<u><u>\$ 150,433</u></u>
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Village of Elsie

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended March 31, 2005

	Special Revenue
REVENUES	
Taxes	\$ 38,392
Interest and rent	1,520
Other	<u>4,421</u>
TOTAL REVENUES	44,333
EXPENDITURES	
Current	
Community and economic development	<u>124,180</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(79,847)
Fund balance, beginning of year	<u>204,794</u>
Fund balance, end of year	<u><u>\$ 124,947</u></u>

Village of Elsie

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended March 31, 2005

Net change in fund balance - governmental fund **\$ (79,847)**

Amounts reported for governmental activities in the statement of activities are different because:

Receipt of long-term receivables is reported as other revenue in the governmental fund, but the receipt of payment reduces long-term assets in the statement of net assets.

In the current year, these amounts consist of:

Loans disbursed	29,000	
Loan payment received	<u>(3,514)</u>	
		<u>25,486</u>

Change in net assets of governmental activities **\$ (54,361)**

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable President and
Members of the Village Council
Village of Elsie
Elsie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Elsie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Elsie's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following condition:

AUTHORIZED PAY RATES

It was noted during our payroll test that individual pay rates, including increases in pay rates, were not approved by the Village Council or documented in the minutes to the Council meetings or in individual personnel files. This issue was noted and reported in our audit comments last year.

We recommend pay rates be approved at Council level and recorded in the minutes to the council meetings stating the pay rate and employee name. A copy of the Council minutes should be placed in the individual personnel files.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Elsie's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described as follows:

BUDGETS

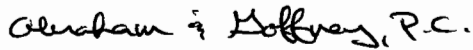
During the course of our audit, we noted expenditures in some of the budgeted activities of the Village exceeded the amount appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We recommend the Village monitor budgeted expenditures against actual on a more frequent basis to alleviate any future budget variances.

We noted certain matters that we reported to management of the Village of Elsie in a separate letter dated October 20, 2005.

This report is intended solely for the information and use of management and Village Council of the Village of Elsie, Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 20, 2005

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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Elsie
Elsie, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Elsie, Michigan as of and for the year ended March 31, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should ensure that time sheets are signed by a supervisor and retained for audit purposes.

During our testing of the payroll process, it was noted that the Village could not locate one timesheet. In addition, four (4) out of the five (5) timesheets selected for testing were not signed by a supervisor.

We suggest the Village ensure all timesheets are approved by a supervisor or department head by signing or initialing the timesheet. We also suggest that all payroll records be retained for audit purposes.

2. The Village should ensure supporting documentation is retained for manual journal entries.

During our testing of the journal entry process, it was noted that supporting documentation was not retained for three (3) of the ten (10) manual journal entries selected for testing.

We suggest the Village appropriately document the reasons for posting journal entries to the general ledger and retain such supporting documentation for audit purposes.

3. The Village should allocate interest revenue to all funds.

During the course of our audit, it was noted that the Village did not allocate interest revenue to the cemetery fund. The interest revenue generated by the cemetery's investment has been retained in the General Fund.

We suggest the Village properly allocate all interest revenue generated by each fund's investments. This allocation will properly record each fund's revenues.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements dated October 20, 2005.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Elsie, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 20, 2005